# TechStar Limited

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ABN 49 089 206 986
ASX Code: TSR

# Appendix 4D

## For the half year ended 31 December 2004

# Appendix 4D

Name of entity

# TechStar Limited

**ABN or equivalent company reference**

**ABN 49 089 206 986**

**Half Year ended ('current period')**

**31 December 2004**

## Results for announcement to the market

| | | | | A$ |
|---|---|---|---|---|
| Revenues from ordinary activities | Down | 87% | to | 24,346 |
| Loss from ordinary activities after tax attributable to members | Down | 35% | to | (694,188) |
| Net loss for the period attributable to members | Down | 35% | to | (694,188) |

| **Dividends (distributions)** | Amount per security | Franked amount per security |
|---|---|---|
| **Current period** | | |
| Final dividend | Nil | Nil |
| Interim dividend | Nil | Nil |
| **Previous corresponding period** | | |
| Final dividend | Nil | Nil |
| Interim dividend | Nil | Nil |
| **Record date for determining entitlements to the dividend** | N/A | |

**Brief explanation of any of the figures reported above:**

Revenue, as forecast, was not as high as the same period last year in keeping with the TechStar strategy of bringing projects to fruition and then exiting.

| **Net tangible asset backing** | Current year | Previous year |
|---|---|---|
| Net tangible asset/(liability) backing per ordinary security | (13.2) cents | (9.3) cents |

| **Earnings per share** | Current year | Previous year |
|---|---|---|
| Basic earnings/(loss) per share | (1.6) cents | (2.7) cents |
| Diluted earnings/(loss) per share | (1.6) cents | (2.7) cents |
| Weighted average number of shares used in calculating basic earnings per share | 42,373,548 | 40,374,123 |
| The amount used in the numerator in calculating basic earnings per share is the same as the net loss attributable to members reported in Statement of Financial Performance. | | |

### Change in composition of entity

There has been no change in the composition of the entity during the reporting period associated with restructuring or the acquisition or disposal of any subsidiary.

### Details of associates and joint venture entities

The reporting entity does not hold any equity in an associate or joint venture entity.

# Compliance statement

## 1 Accounting standards and policies

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX. This report, and the accounts upon which the report is based, use the same accounting policies.

## 2. Review

This report is based on a condensed half-year report that has been reviewed.

Consistent with the year-end reporting date the financial report has been prepared on a going concern basis.

TechStar is currently bringing three products to market. They are CPR Ezy, SportzWhistle, and Reo-mate.

The interested parties in CPREzy, Health Affairs (UK) and TechStar, have agreed to the revised terms for sale of the business.

The Ironbar Reomate and Reotie products have several genuinely interested parties, including global industrial tool companies. A Chinese power tool manufacturer is producing commercial prototypes, and negotiations are under way for distribution of the Company's products into the USA, followed by the prospect of a sale.

The Sportzwhistle global distributor has confirmed orders. We are negotiating to sell the business and retain a royalty income. We anticipate the sale will reflect in the end of financial year accounts.

During this period, we completed negotiations to acquire the rights to the "bionic eye" technology, and are currently working on an equity raising program to support this project.

The consolidated entity also has the continued support of directors and associated investors when required.

The entity has a formally constituted audit committee.

The review report is subject to an emphasis of matter regarding the future funding and its impact on the carrying value of assets and liabilities.

Sign here: ............................................................
Print name: John Reid
Chairman
Brisbane 28th February 2005

# Directors' Report

Your directors submit their report for the half-year ended 31 December 2004.

**DIRECTORS**

The names and details of the Directors of the Company in office during the financial year and until the date of this report are:

| | |
|---|---|
| J.B. Reid, A.O., LL.B, Hon. D. Bus(C Sturt), Hon. Ph. D. (Qld), Hon. D.Univ (QUT), Hon Fellow (Syd), CPE, FAICD, FAIM.<br>(Chairman) | Mr. Reid was appointed Non-Executive Chairman in August 1999. He is a highly regarded Australian businessman.<br><br>He is Emeritus Chairman of the Australian Graduate School of Management, Chairman of Bestcare Foods Limited, and Business Management Limited. He has significant previous commercial and financial experience as Chairman of James Hardie Industries Limited, Deputy Chairman of Qantas Airways Limited, a Director of Broken Hill Proprietary Limited (BHP), Coles Myer Limited, Barclays Australia Limited, and a member of the International Advisory Board of the Swiss Banking Corporation.<br><br>Mr. Reid is also a Life Governor of the Australian Institute of Management. |
| B.P. Jones, B Bus Mgt, FAIM, ASIA, AICD<br>(Non-Executive Director) | Mr. Jones joined the Company as Non-Executive Director in August 1999. He has been involved in investment banking for over 20 years, with the past 15 years at Director and Managing Director level with local and international investment banks. He has specialised in the raising of venture and development capital for smaller companies, including the preparation of business plans, financial structuring, and equity raising.<br><br>He is currently a Director of BestCare Foods Limited and Business Management Limited. |
| J.W. Laurie, B. Ec, FCPA, FAIM<br>(Non-Executive Director) | Mr. Laurie joined the company as Non-Executive Director in January 2000. Mr. Laurie has significant experience in manufacturing and marketing in a wide variety of industries, both domestic and international. He is currently Chairman of Twilight Homes Pty Ltd, Director of Big Kev's Limited and HHO Multimedia Australasia Pty Ltd..<br><br>He was previously the Chairman of Home Leisure Limited, Executive Director of Australian Cement Ltd, General Manager of CSR Ltd's Building Materials Division and Sugar Marketing Division, and Managing Director of Melcann Ltd |
| A.J. Hanmer<br>(Non-Executive Director)<br>(Resigned 12th January 2005) | Mr. Hanmer joined the company as Non-Executive Director in December 2001. Mr. Hanmer has over 25 years senior marketing experience and a strong track record of company management, acquisitions and leveraging new technologies to build professional organisations.<br><br>He has been Senior Vice President and Director of McCann Erickson Worldwide and Regional Director of Asia South Pacific, as well as Chairman of McCann Erickson Australia, working internationally with global companies. He is currently Deputy Chairman of Endeavour Foundation, Director of Queensland Product Company and Director of Queensland Racing. |

All Directors shown were in office for the entire period and up to the date of this report, unless otherwise stated.

## Directors' Report

### REVIEW OF OPERATIONS

The consolidated entity is currently bringing three products to market. They are CPR Ezy, SportzWhistle, and Reo-mate.

Medteq, through the sale of its CPREzy product, generated the majority of the company's revenues during the year to date.

The interested parties in CPREzy, Health Affairs (UK) and TechStar, have agreed the revised terms for sale of the business.

There are several genuinely interested global industrial tool companies who have expressed an interest in purchasing the Ironbar business and its concrete tying Reo-mate tool. Negotiations are under way for the sale of the business with a deposit expected later in the current year.

SportzWhistle previously reported that the 250 sample SportzWiz units recently sold to the worlds largest whistle manufacturer & distributor J. Hudson and Co (Whistles) Ltd - Acme Whistles, had been received positively by its international distributors.

SportzWhistle and Acme Whistles have been working closely together over the past 12 months to develop a product to Acme Whistles specifications, which will suit its distributors markets. Acme Whistles have confirmed orders from a number of their clients.

A new development with the SportzWhistle technology has been in the research and development of alarm whistles. There are a substantial number of assaults on people who assist drivers in car breakdowns or those who refill food and beverage dispensers. Work has begun to modify the design to provide alarm assistance to such machines. This is a new and unexpected application for the device.

In summary, the first years of TechStar were spent in product development and market introduction for CPREzy, SportzWhistle and Reo-mate. The Directors of TechStar did not plan for these businesses to be long-term subsidiaries of the Company and so increasing effort has been put into finding potential buyers who will take them further.

Discussions on these potential sales are encouraging but not yet sufficiently developed to comment further. Shareholders will, of course, be advised when we have some news of substance.

**Auditors Independence**

We have obtained an independence declaration from our auditors, Ernst & Young, which is included in the financial report on page 19.

Signed in accordance with a resolution of the directors.

John B. Reid AO.
Chairman
Brisbane 28th February 2005

# Condensed Statement of Financial Performance

| HALF-YEAR ENDED 31 DECEMBER 2004 | Notes | CONSOLIDATED 2004 $ | 2003 $ |
|---|---|---|---|
| **Revenues from ordinary activities** | 2 | **24,346** | 186,791 |
| **Expenses from ordinary activities** | 2 | **(1,164,383)** | (1,780,962) |
| **LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE** | | **(1,140,037)** | (1,594,171) |
| **INCOME TAX BENEFIT RELATING TO ORDINARY ACTIVITIES** | | **-** | 134,869 |
| **LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE** | | **(1,140,037)** | (1,459,302) |
| **NET LOSS** | | **(1,140,037)** | (1,459,302) |
| **NET LOSS ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST** | | **(445,849)** | (386,385) |
| **NET LOSS ATTRIBUTABLE TO MEMBERS OF TECHSTAR LIMITED** | | **(694,188)** | (1,072,917) |
| **TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS** | 5 | **(694,188)** | (1,072,917) |
| Basic earnings/(loss) per share (cents per share) | | **(1.6)** | (2.7) |
| Diluted earnings/(loss) per share (cents per share) | | **(1.6)** | (2.7) |
| Franked dividends per share (cents per share) | | | — |

# Condensed Statement of Financial Position

| HALF-YEAR ENDED 31 DECEMBER 2004 | Notes | CONSOLIDATED AS AT 31 DECEMBER 2004 $ | AS AT 30 JUNE 2004 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash assets | | **193** | 787 |
| Other | | **14,193** | 408,395 |
| **TOTAL CURRENT ASSETS** | | **14,386** | 409,182 |
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | | **18,655** | 29,352 |
| **TOTAL NON-CURRENT ASSETS** | | **18,655** | 29,352 |
| **TOTAL ASSETS** | | **33,041** | 438,534 |
| **CURRENT LIABILITIES** | | | |
| Payables | | **1,434,291** | 1,610,119 |
| Interest-bearing liabilities | 6 | **2,850,891** | 1,152,469 |
| Provisions | | **18,054** | 24,406 |
| **TOTAL CURRENT LIABILITIES** | | **4,303,236** | 2,786,994 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing liabilities | 6 | **1,079,739** | 2,207,820 |
| Other | | **233,500** | - |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,313,239** | 2,207,820 |
| **TOTAL LIABILITIES** | | **5,616,475** | 4,994,814 |
| **NET DEFICIENCY** | | **(5,583,434)** | (4,556,280) |
| **EQUITY** | | | |
| Total parent entity interest in equity | 5 | **(1,851,270)** | (1,269,970) |
| Total outside equity interest | 5 | **(3,732,164)** | (3,286,310) |
| **TOTAL EQUITY** | | **(5,583,434)** | (4,556,280) |

# Condensed Statement of Cash Flows

| HALF-YEAR ENDED 31 DECEMBER 2004 | Notes | CONSOLIDATED 2004 $ | 2003 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | **161,933** | 153,450 |
| Payments to suppliers and employees | | **(660,167)** | (793,209) |
| Interest received | | **96** | 247 |
| Interest paid | | **(16,370)** | (4,106) |
| Research and development | | **(300)** | (25,143) |
| Tax refund | | **-** | 134,869 |
| Government grants | | **11,563** | 44,407 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | **(503,245)** | (489,485) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of plant and equipment | | **-** | 3,000 |
| Purchase of plant and equipment | | **-** | (14,986) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | **-** | (11,986) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | **110,888** | - |
| Proceeds from borrowings | | **360,000** | 415,994 |
| Repayment of borrowings | | **-** | - |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | **470,888** | 415,994 |
| **NET DECREASE IN CASH HELD** | | **(32,357)** | (85,477) |
| Add opening cash brought forward | | **(123,276)** | (5,172) |
| **CLOSING CASH CARRIED FORWARD** | | **(155,633)** | (90,649) |
| **RECONCILIATION OF CASH** | | | |
| **Cash balance comprises:** | | | |
| - Cash on hand and at bank | | **193** | 3,994 |
| - Bank overdraft | | **(155,826)** | (94,643) |
| **Closing cash balance** | | **(155,633)** | (90,649) |

# Notes to the Half-Year Financial Statements

31 DECEMBER 2004

## 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of TechStar Limited as at 30 June 2004. It is also recommended that the half-year financial report be considered together with any public announcements made by TechStar Limited and its controlled entities during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

### (a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

### (b) Changes in accounting policies

The accounting policies applied are consistent with the most recent annual financial report for the year ended 30 June 2004.

### (c) Going Concern

The consolidated entity has incurred a net loss attributable of $1,140,037 during the current half-year, and at 31 December 2004 has a deficiency in net current assets of $4,288,850 and a net liability position of $5,583,434. As such, there is significant uncertainty as to whether the company and consolidated entity can continue as a going concern.

However, TechStar is working on raising cash through the sale of its current projects, and has also engaged an investment bank to complete a major equity raising.

It has finalized negotiations for the sale of CPR EZY, subject to documentation; is working with overseas bodies for the final development and distribution of Ironbar's Reomate; and has received a significant order from the global distributor for SportzWhistle, which reinforces its value.

Techstar is looking to raise equity from the public markets either by way of placement or prospectus to fund the acquisition of the Augen (bionic eye) project and future development through private placements and/or a prospectus.

The amount to be raised is a minimum amount of $10million.

However, should the anticipated sales of the products and capital raising not generate sufficient revenues and cash flows as expected, the company and consolidated entity may not be able to pay their debts as and when they become due and payable and they may be required to realise assets and extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial statements.

# Notes continued

| 31 DECEMBER 2004 | Notes | CONSOLIDATED AS AT 31 DECEMBER 2004 $ | AS AT 30 JUNE 2004 $ |
|---|---|---|---|
| **2. PROFIT FROM ORDINARY ACTIVITIES** | | | |
| (a) **Specific Items** | | | |
| Loss from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity: | | | |
| (i) **Revenues from ordinary activities** | | | |
| Revenue from sale of goods | | 12,572 | 137,550 |
| Other revenue | | 211 | 4,834 |
| Revenue from grants | | 11,563 | 44,407 |
| **Total Revenue** | | 24,346 | 186,791 |
| (ii) **Expenses** | | | |
| Depreciation and amortisation | | 10,696 | 301,730 |
| Diminution in value (write downs) | | 238,786 | - |
| Borrowing costs | | 198,854 | 366,117 |
| Cost of Sales | | 9,774 | 86,750 |
| Sales and Marketing | | 145 | 67,342 |
| Product Research & Development | | 25,300 | 50,146 |
| Less Capitalised Research & Development | | - | (50,146) |
| Personnel | | 334,864 | 539,940 |
| Administration | | 345,964 | 419,083 |
| **Total Expenses** | | 1,164,383 | 1,780,962 |
| **3. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES** | | | |
| (a) **Dividends proposed and recognised as a liability** | | | |
| Franked dividends | | - | - |
| (b) **Dividends paid during the half-year** | | | |
| Franked dividends | | - | - |
| | | - | - |

## 4. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

# Notes continued

| 31 DECEMBER 2004 | Notes | CONSOLIDATED AS AT 31 DECEMBER 2004 $ | AS AT 30 JUNE 2004 $ |
|---|---|---|---|
| 5. EQUITY | | | |
| **Parent Equity Interest** | | | |
| Contributed Equity | | 6,651,501 | 6,538,613 |
| Accumulated Losses | | (8,502,771) | (7,808,583) |
| **Total Parent Equity Interest** | | (1,851,270) | (1,269,970) |
| **Outside Equity Interest** | | | |
| Contributed Equity | | 2,061,397 | 2,061,397 |
| Accumulated Losses | | (5,793,561) | (5,347,707) |
| **Total Outside Equity Interest** | | (3,732,164) | (3,286,310) |
| (a)**Parent Contributed Equity** | | | |
| Ordinary shares fully paid | | 7,251,611 | 7,138,723 |
| Less: equity raising costs | | (600,110) | (600,110) |
| | | 6,651,501 | 6,538,613 |

| (b) **Movements in shares on issue** | 2004 Number of shares | 2004 $ | 2003 Number of shares | 2003 $ |
|---|---|---|---|---|
| Beginning of the financial period | 40,822,017 | 6,538,613 | 39,903,731 | 6,263,478 |
| Issued during the year | | | | |
| - issued to other parties (i) | 1,737,403 | 112,888 | 918,286 | 195,134 |
| End of the financial period | 42,559,420 | 6,651,501 | 40,822,017 | 6,458,612 |

(i) 2004

6/8/2003 - 555,556 shares issued to a previous CEO Peter O'Neill as approved at the Annual General Meeting held 31st October 2002. No consideration was received by the consolidated entity on the issuance of these shares.

17/12/2003 - 362,730 shares issued to the Chief Executive Officer as approved at the Annual General Meeting held 27th November 2003. No consideration was received by the consolidated entity on the issuance of these shares.

1/2/2004 - 925,926 shares issued @ $0.0864 cents to Chief Executive Officer David Hunt and Chief Financial Officer Barry Moffatt for which $80,000 in cash was received.

2005 (Half-year period to 31 December 2004)

18/8/2004 - 672,589 shares issued @ $0.15 cents in regard to Share Purchase Plan to existing shareholders for which $100,888 in cash was received.

23/7/2004 - 115,740 shares issued for options exercised @ $0.0864 cents for which $10,000 in cash was received.

23/7/2004 - 23,148 shares issued for options exercised @ $0.0864 cents for which $2,000 was swapped for debt.

# Notes continued

| 31 DECEMBER 2004 | Notes | CONSOLIDATED AS AT 31 DECEMBER 2004 $ | AS AT 30 JUNE 2004 $ |
|---|---|---|---|
| (c) Accumulated Losses | | | |
| **Reconciliation of accumulated losses attributable to the parent** | | | |
| Balance at beginning | | (7,808,583) | (5,436,053) |
| Net (loss) attributable to members of TechStar Limited | | (694,188) | (2,372,530) |
| **Balance at end** | | (8,502,771) | (7,808,583) |
| **6. Interest Bearing Liabilities** | | | |
| **Current Liabilities** | | | |
| Secured lease liability- finance lease (i) | | 4,612 | 3,909 |
| Borrowing secured by floating charges | | | |
| - bank overdraft (ii) | | 155,826 | 124,063 |
| - director related entities (iii) | | 1,495,148 | - |
| - other (iv) | | 1,195,305 | 1,024,497 |
| | | 2,850,891 | 1,152,469 |
| **Non-current liabilities** | | | |
| Secured lease liability- finance lease (i) | | - | 2,611 |
| Borrowing secured by floating charges | | | |
| - director related entities (iii) | | 1,079,739 | 2,205,209 |
| | | 1,079,739 | 2,207,820 |

(i) Finance leases have an average lease term of 4 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the leases is 10%. Secured lease liabilities are secured by a charge over the leased assets.
(ii) The bank overdraft is repayable over time. A continuing overdraft facility of $400,000 is available subject to periodic bank review. Interest is charged at the daily bank based lending rate plus 1.75% pa.
(iii) Director related loans are to be swapped for equity as the different stages of the proposed equity raisings. Interest is charged at the rate of 10% p.a. and the loans are secured via a floating charge.
(iv) Other loans are repayable in the next 12 months. Loans amounting to $381,654 of the above amount of $1,195,305 have an interest rate of 10%. Loans are secured by a floating charge.

# Notes continued

31 DECEMBER 2004

## 7. SEGMENT INFORMATION

| Business segments | Notes | CPR Ezy 2004 | CPR Ezy 2003 | Reo-Mate 2004 | Reo-Mate 2003 | SportzWhistle 2004 | SportzWhistle 2003 | Other 2004 | Other 2003 | Eliminations 2004 | Eliminations 2003 | Consolidated 2004 | Consolidated 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Segment Revenue** | | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Sales to customers outside the consolidated entity | | **12,572** | 137,550 | — | — | — | — | — | — | — | — | **12,572** | 137,55 |
| Other revenues from customers outside the consolidated entity | | **11,563** | 47,456 | — | — | — | — | **211** | 1,785 | — | — | **11,774** | 49,24 |
| Unallocated revenue | | — | — | — | — | — | — | — | — | — | — | — | - |
| **Total segment revenue** | | **24,135** | 185,006 | — | — | — | — | **211** | 1,785 | — | — | **24,346** | 186,79 |
| **Segment result** | | **(246,841)** | (734,769) | **(123,388)** | 29,317 | **(552,881)** | (126,709) | **(216,927)** | (627,141) | — | — | **(1,140,037)** | (1,459,30 |
| Unallocated expenses | | | | | | | | | | | | — | - |
| **Consolidated entity profit from ordinary activities before income tax expense** | | | | | | | | | | | | **(1,140,037)** | (1,459,30 |

## NOTES CONTINUED

### 8. SUBSEQUENT EVENTS

Health Affairs has agreed to revise the terms of the previous agreement for the purchase of the CPR Ezy intellectual property and has offered to increase the royalty component to $3.825m and to pay for the territories in Japan and South America. The financial effect of the rescinded agreement has been reflected in the financial result for the period and royalty income will be recognised when received.

### 9. IMPACT OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1st January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This final financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. This summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

Based on managements assessment, the key potential implications of the conversion to IFRS on the consolidation entity are as follows:

- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.
- Income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and as the tax effect follows the underlying transaction, some tax effects will be recognised in equity
- Impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.
- Future Research and Development costs of projects will be affected.
- The treatment of the losses attributable to Outside Equity Interest may change, as losses will only be recognised in Outside Equity Interest where the minority has a binding obligation to provide additional investment to cover the losses. Where this obligation does not exist the losses will be transferred into accumulated losses attributable to members.

The potential impact on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs, which may be incurred, are not anticipated to be significant.

## NOTES CONTINUED

In accordance with a resolution of the directors of TechStar Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

  (i) give a true and fair view of the financial position as at 31 December 2004 and the performance for the half-year ended on that date of the consolidated entity; and

  (ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable (refer note 1).

On behalf of the Board

J. B. Reid AO

Chairman

Brisbane 28th February 2005

ERNST & YOUNG

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Brisbane QLD 4000
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Brisbane QLD 4001

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# Independent review report to members of TechStar Limited

## Scope

*The financial report and directors' responsibility*

The financial report comprises the condensed statement of financial position, condensed statement of financial performance, condensed statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both TechStar Limited (the company) and the entities it controlled during the half year, and the directors' declaration for the company, for the period ended 31 December 2004.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

## Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our review of the financial report, we were engaged to undertake additional non audit related services. The provision of these services has not impaired our independence.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising TechStar Limited and the entities it controlled during the half year period is not in accordance with:

(a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

**Inherent Uncertainty Regarding Continuation as a Going Concern**

Without qualification to the statement above, attention is drawn to the following matter. As described in Note 1(c) Going Concern, there is significant uncertainty whether the company and the consolidated entity will be able to continue as going concerns and therefore whether they will be able to pay their debts as and when they fall due and realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report of the company and consolidated entity does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as going concerns.

Ernst & Young

Ernst & Young

M Reid

M Reid
Partner
Brisbane
28 February 2005

ERNST & YOUNG

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## Auditor's Independence Declaration to the Directors of TechStar Limited

In relation to our review of the financial report of TechStar Limited for the half-year ended 31 December 2004, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

M Reid

Mike Reid
Partner
28th February 2005